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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002958

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TAGS: [ECON](#) [EPET](#) [ENRG](#) [EINV](#) [ETRD](#) [PGOV](#) [IZ](#)
SUBJECT: FAREWELL CALL ON MINISTER OF OIL SHAHRISTANI

REF: RIYADH 05841

Classified By: CLASSIFIED BY DEPUTY ECONOMIC COUNSELOR EDWARD KLOTH REASONS 1.4 (B) AND (D).

¶1. (C) Summary: In an August 10 farewell call with Economic Minister Counselor, Minister of Oil Husayn al-Shahristani discussed hydrocarbon legislation, the Baghdad Security Plan, fuel import liberalization and import issues with Iran and Turkey, energy cooperation with Saudi Arabia and Jordan, advancing Department of Energy training initiatives, and the recent detention of North Oil Company personnel. Shahristani appeared overly optimistic about areas where we see significant challenges -- notably hydrocarbon legislation and contracting. He asked for our support in approaching Turkey to increase fuel exports, and in protecting welding teams repairing northern pipelines. End Summary

HYDROCARBON LEGISLATION

¶2. (C) In an August 10 meeting with Economic Minister Counselor, Shahristani said progress was being made on hydrocarbon legislation. He offered us copies of an earlier draft law developed by former Oil Minister, Thamir Ghadban, and the federal law recently presented to the Government of Iraq (GOI) by the Kurdistan Regional Government (more detailed analysis of these documents provided septel). Shahristani explained that the Ministry continues to work from the Ghadban law, but did not go into detail on additional MOO drafting activity.

¶3. (C) Shahristani acknowledged the importance of convening politically influential individuals as a means of brokering consensus on hydrocarbon legislation and national energy policy. He suggested that the existing Ministerial Committee on Energy chaired by Deputy Prime Minister Barham Saleh was the appropriate forum for this dialogue. He pointed out that the Ministry officials participating in this Committee were representative of many different religious and ethnic groups as well as political parties.

¶4. (C) In response to our question, Shahristani said that the Energy Committee does not coordinate with the National Reconciliation Committee, as it is concerned with infrastructure security rather than political reconciliation. He said that Shi'a and Sunni Arabs do not disagree on national energy policy, although the Kurds have a different interpretation of Article 112 of the Constitution that deals with the role of the federal government in management of oil and gas resources. Shahristani maintained that this differing interpretation of Article 112 is irrelevant, however, since Article 111 states that all revenue from oil and gas development goes to a central government account. Shahristani said that he expects a draft hydrocarbon law will be

presented to the Council of Representatives (CoR) by November 2006, and passed by the end of the year. He welcomed support by USG legal advisors on the ground.

BAGHDAD SECURITY PLAN AND NEW BORDER GATES WITH IRAN

15. (C) Embaffs briefed Minister Shahrستاني on the Baghdad Security Plan, emphasizing its goal of establishing economic normalcy. Ensuring sufficient fuel supplies for Baghdad will be an important part of this effort. The Minister described his efforts to open Iraq's eastern border with Iran to allow the transit of refined product from Turkmenistan. Shahrستاني told us that lines at the Manzurayah Gate on the Iranian border are too long, and that opening additional gates in the north and south is currently under consideration. He was leaving for Tehran on August 11 to see if the Iranians were ready to move forward.

FUEL IMPORT LIBERALIZATION AND PROBLEMS WITH TURKEY

16. (C) Shahrستاني told us of continued problems moving fuel across the Turkish border. He explained that imports were being held up because the Turkish Deputy Trade Minister is trying to steer the Iraqi Ministry of Oil (MOO) to do business with certain Turkish companies, citing MOO resistance to this pressure as the reason why the arrears issue has been raised again -- even though MOO has adhered to the agreed schedule of debt payments. Shahrستاني said the MOO is willing to negotiate the remaining arrears as soon as possible. He said that problems with the Turks are forcing

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the MOO to make "politically incorrect" decisions to increase trade with Syria and Iran.

17. (SBU) Shahrستاني told us that draft Fuel Import Liberalization legislation, currently in its second reading, should be adopted by September 15. He said that Iraqi business people were already asking for retail licenses, but he is doubtful liberalization will have a big impact on supply in the near-term, since physical import capacity is constrained. (Note: trucks are lined up at the borders and seaports are full. End note.)

SAUDI-IRAQI ENERGY COOPERATION

18. (SBU) Asked about MOO plans to respond to the invitation (reftel) extended last month by Prince Abdulaziz Bin Salman, Deputy Minister of Petroleum and Saudi head of the Joint Saudi-Iraqi Oil Committee, to discuss cooperative activities, Shahrستاني said he is especially interested in fuel import opportunities and further opening borders with Saudi Arabia. He said he would be interested in visiting the Kingdom to discuss such issues.

CRUDE OIL TO JORDAN?

19. (SBU) Minister Shahrستاني confirmed reports that the GOI has agreed to supply Jordan with crude oil. An Iraqi technical team was already in Jordan to determine if their Zarqa Refinery can handle a blend of Kirkuk crude (which has higher sulfur content than the Basrah Light previously supplied). Noting that details regarding transport must still be worked out, Shahrستاني said that Jordanian tankers would need to get the crude from Bayji Refinery, since there are no Iraqi tankers available.

DETENTION OF NORTH OIL COMPANY PERSONNEL

¶10. (C) The Minister called the detention of two high-level North Oil Company (NOC) personnel by the Commission on Public Integrity (CPI) August 1 unfortunate, because these personnel are essential to the repair and commissioning of the critical 40-inch pipelines in the north. He asserted that the MoO Inspector General responsible did not follow proper procedure, and that the Ministry was seeking more information on the case.

DEPARTMENT OF ENERGY TRAINING PROGRAM

¶11. (SBU) Shahrستاني reiterated his interest in Department of Energy training initiatives presented during his recent meetings in Baghdad and Washington with Secretary of Energy Samuel Bodman. He confirmed that Deputy Minister Abdul Jabbar al-Wagga will follow up coordination for a DOE seminar scheduled later in August.

COMMENT

¶12. (C) The often distant Shahrستاني seemed to have warmed up, despite being persistently inaccessible to both U.S. Mission personnel and his own senior staff. Although three months into his tenure as Minister he appears more confident in his position, we note that he is often insufficiently informed or overly optimistic on certain critical issues. His view that hydrocarbon legislation will soon be passed without too much conflict, and his assertion that contracting issues that have impeded important MOO projects are no longer a problem raise concerns about how in-touch Shahrستاني is with his Ministry. (Note: contracting procedures continue to impede, for example, projects such as the al-Nahrain refinery. End note.)

KHALILZAD